

Version 1.1 September 2018

China CITIC Bank London Branch

New Product Approval Policy



Document History

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Version	Owner	Approval	Date	Major changes
1.0	President	President	May 2018	PRA Regulatory Business Plan
1.1	CRO	MANCO	Sept 2018	<ul style="list-style-type: none"> • Policy ownership changed to CRO • Insert Product/Customer Matrix • Implement New Product Working Group • Add New Product Working Group Template • Legal advice sign-off changed to President • Pre-launch approval sign-off Template • Final sign-off changed to President • Add Product monitoring

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1 Introduction

This document contains the New Product Approval Policy (“NPAP”) developed by China CITIC Bank London Branch (“the Bank” or “CNCBLB”). The NPAP governs the framework for launching any new products as well as any significant modification to an existing product.

2 Objectives

The objectives of this policy are to:

- Document, at a high level, how the Branch manages the introduction of new products and/or changes to existing products;
- Assign ownership and accountability for the maintenance of the NPAP;
- Ensure awareness of the life-cycle and associated risks across the suite of products; and
- Support the implementation of the Branch’s Risk Appetite including the Product/ Customer Matrix (See **Appendix A**).

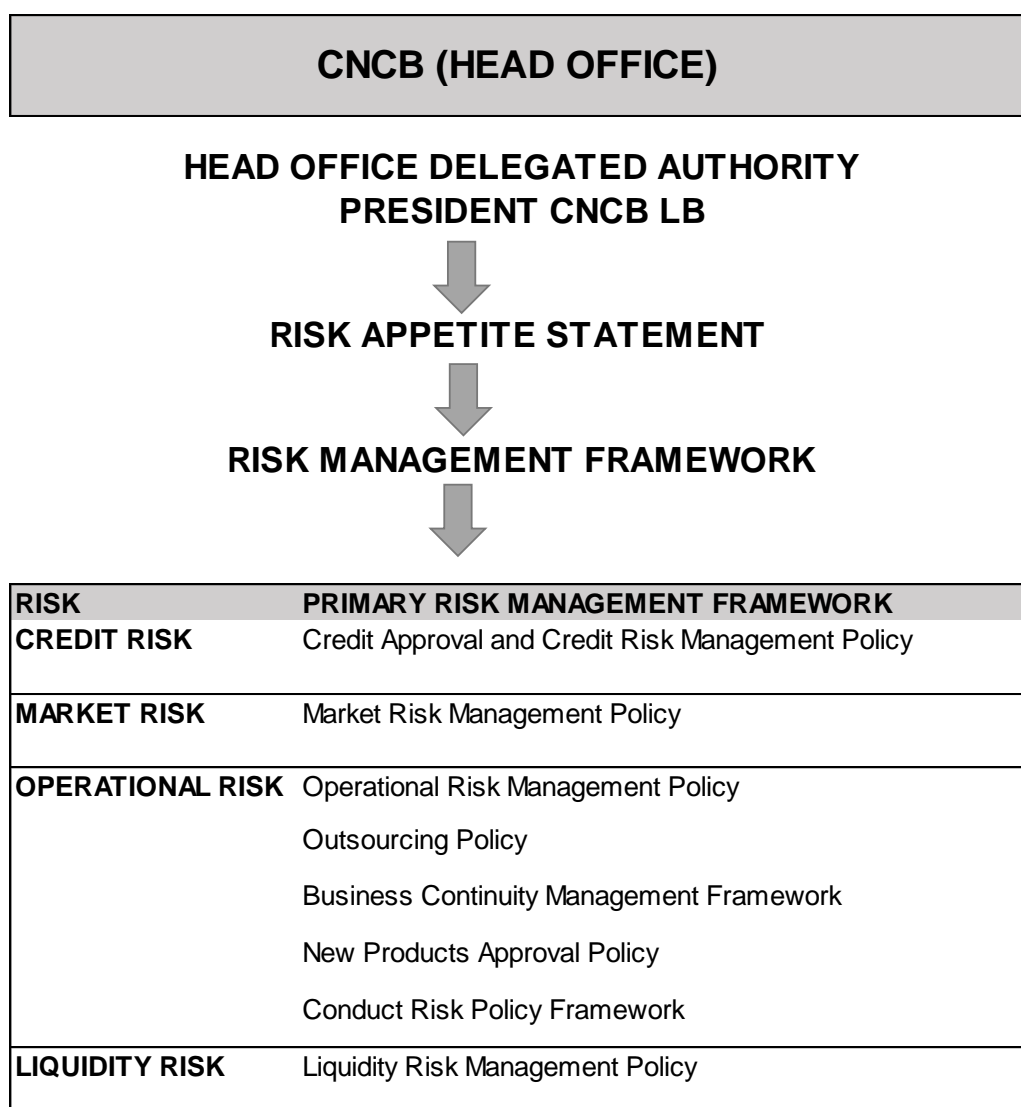
3 Policy Ownership

The 'chain' of ownership and oversight of this policy is set out below:

Document Owner	<p>The Chief Risk Officer ("CRO") of the Branch is responsible for the maintenance for this document.</p> <p>They will also be responsible for reviewing the adequacy of the policy on an annual basis or more frequently as required. Any material changes to this document will be communicated to staff accordingly.</p>
Challenge	<p>The Audit and Risk Committee ("ARCo") will review and challenge the policy at least annually or more frequently as necessary. Based on each review, or the regulators as appropriate.</p> <p>Following each review, the ARCo will recommend (or otherwise) approval of the policy to the ManCo.</p> <p>In addition, ARCo oversees the NPAP approval process and provides approval for the new product, with support from ManCo if needed.</p>
Approval	<p>Based on recommendations from the ARCo, Management Committee ("ManCo") will review and challenge this policy at least annually.</p> <p>ManCo will approve the Policy after each review.</p>
Applicability	<p>All members of staff, whether permanent (local hires and expatriate alike) or contractors must operate in accordance with this Policy. Escalation of any matters arising in respect of this policy should be via the individual's Head of Department or directly to the VP.</p>

4 Risk Management Framework

The New Product Approval Policy is a supporting policy for the Operational Risk framework that is integral part of the overall risk framework, which is presented as follows:



Risk department will manage the new products approval process through the 'New Product Working Group' which includes the input and sign-off by the business owner, Operations, Finance, Risk and Compliance.

5 New Product Approval – Key Steps

There is a range of key steps required before a new product can be launched or material changes can be made to existing products.

5.1 Initiation

The NPAP process is initiated by a Product Sponsor who is typically the product 'owner' (i.e. Head of Department in the area wishing to launch /change a product). The Product Sponsor is expected to:

- Document a business case;
- Articulate of the concept of the product, with sufficient understanding of the overall business environment and nature of the new product;
- Coordinate with the support departments and outsourced company (if appropriate) in completing and providing the necessary risk assessment and documentation in a timely manner; and
- Obtain all necessary approvals and authorisations throughout the NPAP process.

5.2 Business case

The business case requirements are provided in **Appendix B**, which covers the following minimum requirements:

- A description of the new product/service and its features or significant modification to an existing product/service;
- Rationale;

- Product characteristics (e.g. structure, product cycle, cash flow, operational requirements) this section should include a product structure diagram (with cashflows) and an operational work flow diagram including system requirements;
- Distribution channels (existing/new channel or relationship, costs involved, breakdown of the volumes per channel);
- Target Market;
- Market environment;
- Initial risk assessment including regulatory permissions and licensing requirements;
- Anticipated profitability; and
- Timescale of product development and launch;

The Product Summary and Business Case will be submitted to a 'New Product Working Group' for discussion to develop the new product.

5.3 New Product Working Group

The introduction of a new product or changes to an existing product could impact a number of departments ("Stakeholders"), this includes:

- **Front Office** - product sponsor and understands risks, systems, controls and customer suitability, including target customers, AML/KYC procedures, legal documentation and limits;
- **Information Technology ('IT')** - ensures adequate resources for system development, transaction processing and reporting, including testing and back-ups;
- **Operations** – transaction processing, including documented procedures, effective controls and sufficient resources to support the business;

- **Finance** – accounting process and valuation of transactions, including documented procedures, effective controls, capital requirements, financial reporting, liquidity impact and tax implications;
- **Compliance** – transaction monitoring against regulatory requirements including AML/KYC and sanctions/black-lists; and
- **Risk Management** – transaction monitoring against credit, market and liquidity risk appetite, including the risk management processes and methodologies to measure and report the underlying risks within the product.

As the launch or amendments to existing products could impact operational risk and internal controls, Risk Department will ensure that all relevant stakeholders undertake a detailed risk assessment and list critical tasks or actions required relating to the new or changed product. The assessment should both identify the risks and, to the extent possible, quantify the pre and post management action.

The analysis must be formally documented with detailed descriptions of tasks/actions required and target/completion dates must be set in order to ensure that all critical actions have been completed prior to product launch.

If required, the Product Sponsor can seek approval from the President to obtain legal advice to complete the Risk Assessment or the drafting of any product documentation during the Pre-Launch phase.

For any product outside the CNCBLB Risk Appetite, the Delegated Authority of the President or for products not offered by Head Office (“HO”), approval must be obtained separately from the appropriate approval authority before the process can progress to Pre-Launch.

5.4 Pre-Launch

- Once the new product or amendments have been approved and signed off by the members of the New Product Working Group (see **Appendix C** for sign-off requirements) the following pre-launch requirements must be fulfilled before final sign-off or any marketing activities can be conducted: Product literature approved by both the business and Compliance;
- Marketing materials and distribution arrangements approved by Compliance;
- Product and associated systems testing have been completed; and
- Training for sales and support staff has been completed.

5.5 Final Sign-off

Once all relevant departments have signed-off that all action points and critical risks factors have been satisfactorily completed, the President of CNCBLB will have the final new sign-off on any product launch, as per the delegated authority and prescribed veto rights.

5.6 Post Launch Review

Within six months of launching the new or changed product, the Product Sponsor must evaluate effectiveness and success of the implementation.

The Post-Launch Review must confirm that the product has been sold to the intended target client set; and if any unforeseen issues have arisen. The Review should also include a gap analysis against expected financial performance of the products.

A report setting out the findings from the Post Launch Review must be presented to the ARCo and ManCo with any deviation from intended outcomes highlighted together with proposed remedial action as necessary. In extremis this could include discontinuation if performance of the product is incompatible with the RAS of the Branch and / or regulatory requirements.

5.7 Product Monitoring

All products will be subject to continuous monitoring by risk and compliance departments.

Risk Department will, at least annually, review all products with the business sponsors and product owners to ensure continued relevance, regulatory changes and/or changes to the risk factors or product risk profile. This will normally form part of the annually Risk & Control Self-Assessment required under the Operational Risk Policy.

6 Review and Update of Policy

The New Product Approval Policy shall be reviewed by the Risk at least annually or as directed by the ManCo, to reflect changes in the profile of risks or business activities, organisational or authority structures or new regulations relevant to CNCB LB management of market risk.

Appendix A – Product / Customer Matrix

Products		Customers			
Category	Product and services	<i>CITIC Group entities</i>	<i>Domestic HO Financial Institutions</i>	<i>Domestic HO Large Multinationals</i>	<i>Local HO customers</i>
Treasury	Foreign Exchange (Spot Only)	√	√	√	√
	Foreign Exchange Forwards/Swaps		√		
	Interest rate / Cross-Currency Swaps		√		
	Interbank lending / borrowing		√		
	CD's		√		
	Repo's		√		
	Bonds		√	√	√
	Treasury Bills		√		
Corporate Loans	Bilateral Loans	√		√	√
	Syndicated Loans	√		√	√
Trade Finance	Financial Institutions (Refinance, Letters of Credit and guarantees)		√		
	Corporates (Bill advancing, Letters of Credit, guarantees, forfaiting and receivable finance)	√		√	√
Deposit Products	Corporate Current accounts	√		√	√
	Corporate Deposit Accounts	√		√	√
Payment Services	UK Domestic payments	√		√	√
	International payments	√		√	√

Appendix B – New Product Business Case

Date		
Business Owner Department Name
Product Sponsor Department Name

New Product Proposal
Proposed New Product Name:
Reason for Introducing New Product (Please tick appropriate option): <input type="checkbox"/> New Product <input type="checkbox"/> Enhancement to Existing Product <input type="checkbox"/> Customer Complaint/ Feedback/Suggestion <input type="checkbox"/> Internal Research and Development <input type="checkbox"/> Local Regulatory Requirements <input type="checkbox"/> Other (Please Specify: _____)
Product Description and Key Features (to be provided in separate 'New Product Memo') The New Product Memo must as a minimum cover the following: <ul style="list-style-type: none"> • A description of the new product/service and its features or significant modification to an existing product/service; • Rationale; • Product characteristics (e.g. structure, product cycle, cash flow, operational requirements); • Distribution channels (existing/new channel or relationship, costs involved, breakdown of the volumes per channel); • Target Market; • Market environment; • Initial risk assessment including regulatory permissions and licensing requirements; • Anticipated profitability; and • Timescale of product development and launch

Appendix C – New Product Approval (Sign-Off) Template

Responsibility	Review	Sign Off
Front Office	<ul style="list-style-type: none"> • Understands the product, customer suitability, risks, systems and controls; • Identify target clients / counterparties; • Documented front-office procedures, including trader mandates and internal limits; • Documented AML/KYC and Credit approval process; and • Determined legal documentation required, if any. 	<p>.....</p> <p>Business sponsor / Product Owner</p>
Operations	<ul style="list-style-type: none"> • Developed transactional process and compiled documented procedures to support the process, which includes any compliance or regulatory requirements; • Documented procedures in place to established effective controls for the transaction covering trade execution, confirmation, settlement, etc.; • Established back office systems and resources to support the process including, where required, any interfaces/alternative payment methods; • Ensure full understanding of product and process by back office staff to support the business; and • Established any nostro / custodian requirements 	<p>.....</p> <p>Head of Operations</p>
IT	<ul style="list-style-type: none"> • Established system priorities to ensure that adequate resources are dedicated for system development to meet processing / monitoring needs to support the new activity; • Determine cost effectiveness of proposal system solution given planned volumes, revenues and expenses; • Verify that all systems are properly backed up; and 	<p>.....</p> <p>Head of Information Technology</p>

	<ul style="list-style-type: none"> Define, document and test contingency plans for any system requirements 	
Compliance	<ul style="list-style-type: none"> Develop and implement monitoring and review procedures to ensure compliance with Bank policy, laws and regulations; Check if there are any insider trading concerns; Ensure the traders are properly registered for regulatory purposes; Ensure that all necessary documentation to support the product including, where required anti-money laundering documents have been received and verified and maintained in a secure location; Identify and ensure all reporting requirement are met and have acceptable procedures in place; and Verify client / counterparty power and authority to enter into activity under its local laws and regulations. 	<p>.....</p> <p>Chief Compliance Officer</p>
Financial Control	<ul style="list-style-type: none"> Documented all accounting processes and procedures; Define the capital requirement of the new product (if required); Review the accounting options and approve the proposed treatment; Check if the new product involves commitments, guarantees, contingencies or any other off-balance sheet items; Review the financial reporting and disclosure implications for Bank and/or Group; Assess impact on liquidity profile of Bank; and Consider any tax consequences with this new product that might make the business 	<p>.....</p> <p>Head of Finance</p>

	unprofitable or expose the firm to unwanted tax exposures.	
Credit Risk	<ul style="list-style-type: none"> • Documented credit processes and procedures in place; • Identify and analyse credit risk of new product, including credit risk model capability; • Identify target clients / counterparties and determine suitability and impact on concentration limits; • Determine settlement arrangements including requirements for limits / netting; and • Determine whether collateral has impact on exposure measurement. 	<p>.....</p> <p>Head of Credit</p>
Market Risk	<ul style="list-style-type: none"> • Identify and analyse market risk and pricing methodology; • Establish procedure for monitoring market risk limits; and • Verify that the necessary new accounts / securities / portfolios are being / have been opened. 	<p>.....</p> <p>Chief Risk Officer</p>
Operational Risk	<ul style="list-style-type: none"> • Ensure all operational areas have documented procedures; • Ensure all critical items are closed off prior to trade commencement; and • Coordinate all working group actions. 	<p>.....</p> <p>Chief Risk Officer</p>
Business Owner / Product sponsor	<ul style="list-style-type: none"> • Ensure that all areas under remit have appropriately executed all the responsibilities under their respective areas 	

Final sign-off /Product Approval

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President